15 T.C. 819 (1950)

When a corporation requests a prompt assessment of taxes under Section 275(b) of the Internal Revenue Code due to its impending dissolution, Section 311(b)(1) still allows the Commissioner one year after the expiration of that shortened limitation period to pursue transferee liability against the corporation's shareholders.

Summary

Sunset Golf Corporation requested a prompt tax assessment under Section 275(b) in anticipation of its dissolution. After the corporation dissolved and distributed its assets to shareholders, the Commissioner determined deficiencies in the corporation's excess profits taxes. The Commissioner then issued notices of transferee liability to the shareholders within one year after the expiration of the shortened assessment period under Section 275(b). The shareholders argued that the prompt assessment provision precluded any further action by the Commissioner after the 18-month period expired. The Tax Court held that Section 311(b)(1) extended the time for assessing transferee liability, even when the underlying assessment period was shortened by a request for prompt assessment.

Facts

Sunset Golf Corporation filed income and excess profits tax returns for 1943 and 1944. In 1945, the corporation sold its assets and decided to liquidate. On December 19, 1945, the corporation notified the IRS of its intent to dissolve and requested a prompt assessment under Section 275(b) of the Internal Revenue Code. The corporation completed its liquidation, except for a final distribution in August 1947. The Commissioner later determined deficiencies in the corporation's excess profits taxes for 1943 and 1944 due to adjustments in invested capital. No statutory deficiency notice was issued to the corporation. The Commissioner mailed notices of transferee liability to the shareholders on March 15, 1948.

Procedural History

The Commissioner issued notices of transferee liability to the former shareholders of Sunset Golf Corporation. The shareholders petitioned the Tax Court, arguing that the statute of limitations barred the Commissioner's assessment. The cases were consolidated for trial.

Issue(s)

Whether the Commissioner is barred by the statute of limitations from asserting transferee liability against the shareholders of a dissolved corporation when the corporation had requested a prompt assessment of taxes under Section 275(b) of the Internal Revenue Code.

Holding

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No, because Section 311(b)(1) allows the Commissioner one year after the expiration of the period for assessment against the taxpayer to proceed against a transferee, even when the assessment period is shortened by a request for prompt assessment under Section 275(b).

Court's Reasoning

The court reasoned that Section 311(b)(1) provides a clear and unambiguous extension of the statute of limitations for assessing transferee liability. The court found nothing in the language or structure of the Code to suggest that Section 311(b)(1) should not apply when the basic limitation period is determined under Section 275(b). The court rejected the shareholders' argument that Section 275(b) was intended to be the sole limitation on the Commissioner's power to claim a deficiency, stating that Section 275(b) is merely a part of a comprehensive scheme of limitations provisions. The Court stated, "[W]e are met at the outset with the blunt fact that there is nothing in the statute which so provides [that Section 311(b)(1) is inapplicable when a prompt assessment is requested]. Nor have we been referred to any convincing materials which disclose a legislative purpose to reach such result." The court also highlighted the practical difficulties the Commissioner would face in tracing assets and establishing transferee liability within the shortened 18-month period of Section 275(b).

Practical Implications

This case clarifies that requesting a prompt assessment under Section 275(b) does not eliminate the additional year the IRS has to pursue transferees under Section 311(b)(1). This decision is important for tax practitioners advising corporations contemplating dissolution because it highlights that even after a prompt assessment request, shareholders receiving distributions may still be subject to transferee liability for up to a year after the shortened assessment period expires. The case emphasizes the importance of carefully considering potential tax liabilities when planning corporate liquidations and distributions. It also reinforces the principle that statutory limitations on tax assessments are strictly construed, and exceptions are only recognized when explicitly provided by Congress.

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